



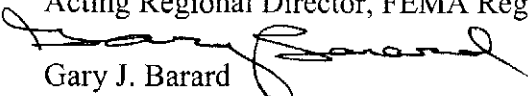
DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office - Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

August 20, 2003

MEMORANDUM

TO: Joseph Picciano
Acting Regional Director, FEMA Region II

FROM: Gary J. Barard 
Field Office Director

SUBJECT: Commonwealth of Puerto Rico
Administration of Disaster Assistance Funds
Audit Report No. DA-20-2003

Attached for your review and follow-up action are five copies of the subject audit report. In summary, the OIG determined that the Commonwealth's Office of Management and Budget should improve certain financial and program management procedures associated with the administration of FEMA's disaster Public Assistance Program.

On May 12, 2003, your office responded to the draft report (Attachment B to this report). Based upon your response, Findings A, B.2, C.3 and C.4 are closed and require no additional action. The remaining findings in the report are resolved, but require an additional response describing actions taken to implement the recommendations. Please advise the Atlanta Field Office-Audit Division by September 22, 2003, of the action taken to implement the open recommendations.

The Audit Division, Atlanta Field Office, prepared this report. Questions may be addressed to Gary J. Barard, Field Office Director at (770) 220-5242. Staff assigned to this audit were Oscar Andino, Salvador Maldonado-Avila, Vilmarie Serrano-Rosario, and Joycelyn Thomas.

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	1
II. INTRODUCTION	3
III. SCOPE AND METHODOLOGY	4
IV. FINDINGS AND RECOMMENDATIONS	5
A. OMB's STAFFING AND BUDGETARY PLAN FOR ADMINISTERING THE PUBLIC ASSISTANCE PROGRAM	5
B. FINANCIAL MANAGEMENT	8
1. Accounting System Weaknesses	8
2. Financial Reporting.....	11
3. Cash Management.....	13
4. Claims and Receipts of State Management Funds and Administrative Allowance.	15
C. PROGRAM MANAGEMENT.....	17
1. Processing Requests from Subgrantees	17
2. Monitoring Subgrantee Operations.....	20
3. Quarterly Performance Reports to FEMA	22
4. Auditing Subgrantee Operations.....	23
V. GENERAL COMMENTS	
A. SUBGRANT CLOSEOUT	27
B. AUDITORS' INDEPENDENCE	28
ATTACHMENTS	
A. Schedule of Awards and Expenditures	

B. Region II's Response

C. Puerto Rico Governor Authorized Representative's Response

I. EXECUTIVE SUMMARY

Puerto Rico has been affected by five major hurricanes and storms during the past seven years, each of which caused major damage to government and private property. FEMA, under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, provided over a half billion dollars of public assistance funds to eligible government agencies and non-profit organizations to implement projects designed to facilitate recovery from these disasters. These funds were awarded to the Commonwealth of Puerto Rico, Office of Management and Budget (OMB). As a FEMA grantee, the OMB was responsible for overall administration and management of the program.

The Office of Inspector General (OIG) performed an audit to determine whether OMB accounted for, used, and managed public assistance program funds in accordance with federal regulations and FEMA guidelines. To evaluate the effectiveness of OMB's administration of the Public Assistance program, the OIG reviewed activities and transactions from the five opened disasters declared during September 1995 to November 2001.

The OIG concluded that OMB was not staffed or organized in a manner to effectively administer the Public Assistance program. Improvements are needed in the areas of financial and program management.

A. OMB's Staffing and Budgetary Plan

OMB had not developed a staffing and budgetary plan for management of the Public Assistance program. As a result, the \$5.9 million of FEMA funds provided for general program administration were used to fund a dual staffing system that did not operate in the most effective or efficient manner (page 5 of Report).

B. Financial Management

OMB needs to improve in the financial management areas of grant accounting, financial reporting, cash management, and documenting and claiming general administrative costs. Specifically, the OMB's:

1. Accounting system for two disaster declarations did not accurately reflect disbursements made to subgrantees. Additionally the system did not record, for three disaster declarations, matching contributions provided by non-profit and independent governmental organizations (page 8 of Report);
2. Financial reporting systems did not provide timely or accurate reports to FEMA on drawdowns of federal funds and cash outlays (page 11 of Report);
3. Cash management practices differed from the procedures approved by FEMA and did not minimize the time lapse between the transfer of federal funds and actual usage (page 13 of Report); and

4. Claims and receipts of state management funds, and statutory allowances, included \$371,958 to which it was not entitled (page 15 of Report).

C. Program Management

OMB needs to improve in the program management areas of processing requests for project changes from subgrantees, monitoring and auditing subgrantee operations, and reporting on the status of project activities. Specifically, OMB did not:

1. Timely or appropriately process subgrantees' request for project time extensions, and changes in the scope of project work (page 17 of Report);
2. Effectively monitor the operations of its subgrantees (page 20 of Report);
3. Submit timely and complete reports to FEMA on the status of individual projects (page 22 of Report); and
4. Schedule, perform, and report the results of subgrantee audits effectively or efficiently (page 23 of Report).

As a result of these conditions, OMB did not have reasonable assurances that subgrantees were administering public assistance projects in accordance with approved work statements and using grant funds for allowable and eligible purposes.

II. INTRODUCTION

The Office of Inspector General performed an audit of the administration of FEMA's Public Assistance (PA) program by the Office of Management and Budget (OMB), Commonwealth of Puerto Rico. The audit objectives were to determine whether OMB, a FEMA grantee, was accounting for, reporting, using, and managing PA program funds in accordance with federal regulations and FEMA guidelines.

The PA program is one of several major disaster assistance programs funded by FEMA. Under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, and after a Presidential-disaster declaration, FEMA provides PA funds to eligible organizations for debris removal, emergency protective measures, and the permanent restoration of facilities. Normally, the recipients of PA funding are required to share in the cost of the program by providing local matching contributions.

State and local governmental entities, and certain non-profit organizations, are eligible for PA program funding if the activities for which they seek funds were: a result of the declared event and not a pre-disaster condition; located within the area designated by FEMA as eligible for assistance; the legal responsibility of an eligible applicant; and except for permanent work, not eligible for assistance under another federal program.

The Governor of the Commonwealth of Puerto Rico designated the Director of OMB, as the Governor's Authorized Representative (GAR) for disaster assistance programs. As such, the OMB had responsibility for overall administration of the PA program. As the grantee, OMB received a statutory administrative allowance, as well as FEMA state management grants, to cover costs associated with PA program administration. OMB responsibilities include:

- Accounting for and reporting on the receipt and disbursement of PA program funds;
- Managing the use of funds at OMB and monitoring the use of funds and the implementation of the PA program at the subgrantee level; and
- Closing PA funded projects and grants made under each disaster declaration.

As of February 20, 2002, OMB had a staff of 60 employees who were assigned PA program responsibilities. The PA program staff consisted of a GAR, two alternate GARs, a public assistance officer, two financial and accounting managers, four accountants, a cash manager, seven state public assistance coordinators, three state project officers, 29 auditors and 10 administrative and clerical personnel. FEMA funded 42 of these positions with state management grants. The other 18 positions were fully funded by the Commonwealth.

III. SCOPE AND METHODOLOGY

To test the effectiveness of OMB procedures and practices for grant accounting, reporting, fund usage, and program management, the OIG examined activities and transactions from the five disaster declarations that were open as of March 2002. The OIG did not evaluate OMB's closeout efforts, but included comments on the status of closeout for the five disaster declarations in Section V of this report. The five open disaster declarations included in our review are:

- Number 1068, declared in September 1995 as a result of Hurricane Marilyn.
- Number 1136, declared in September 1996 as a result of Hurricane Hortense.
- Number 1247, declared in September 1998 as a result of Hurricane Georges.
- Number 1372, declared in May 2001 as a result of severe storms and floods.
- Number 1396, declared in November 2001 as a result of severe storms and floods.

FEMA awarded \$548.2 million under these declarations for the implementation of various PA projects and \$8.6 million to cover the OMB's administrative and management costs associated with general program administration. Depending on the particular disaster declaration, FEMA required OMB to provide matching contributions of 10 or 25 percent of the total cost of the PA program.

The OIG audit covered the period September 1995 to March 2002. During this period, the OMB received \$411.6 million of FEMA funds under the five declarations, and reported program and administrative expenses of \$448.8 million. See Attachment A for a schedule of awards and expenditures by declaration.

The OIG audit fieldwork was conducted in San Juan, Puerto Rico during October 2001 to December 2002. In performing this audit, the OIG reviewed and analyzed accounting and program records of OMB, the Commonwealth Department of Treasury and Civil Defense Agency, as well as FEMA's Caribbean Area Office. The OIG also interviewed program officials representing those organizations.

Federal regulations governing the PA program are contained in the Code of Federal Regulations (CFR), Title 44. The OIG used these regulations, along with FEMA and other pertinent federal publications, to evaluate OMB's administration of the PA program. The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government audit standards (see section V. B). The audit included the procedures described above, and other auditing procedures considered necessary under the circumstances.

IV. FINDINGS AND RECOMMENDATIONS

A. OMB's STAFFING AND BUDGETARY PLAN FOR ADMINISTERING THE PUBLIC ASSISTANCE PROGRAM

The OMB had not developed a staffing and budgetary plan for proper program administration. As a result, the \$5.9 million of management grants, provided for general program administration, were used to fund a dual staffing system that did not operate in the most effective or efficient manner.

Each year, the OMB is required to develop and submit, to FEMA, a public assistance administrative plan that contains procedures for determining the human and financial resources needed to effectively administer the PA program (44 CFR 206.207). OMB plans for calendar years 1995 to 2001 contained the required procedures. The plans indicated that, within a few days of each new disaster declaration, the OMB would prepare and submit to FEMA Region II, a detailed and specific plan identifying the staffing and related financial resources needed to administer that disaster.

The OIG found that OMB had not prepared a staffing and budgetary plan for any of the five disasters. Nonetheless, OMB received several management grants from FEMA totaling \$5.9 million. The management grants were in addition to the \$2.7 million received by OMB as statutory administrative allowances, and were made to reimburse OMB for costs that it had already incurred for program administration.

In submitting costs for reimbursements, OMB did not provide justification for costs claimed. FEMA Region II's Caribbean Area Office reviewed these claims and, after consulting with the OMB, denied reimbursement for certain costs. However, the management grants were not based on an analysis of the PA program workload and a related staffing and budgetary plan.

In reviewing OMB's organizational structure, we determined that a dual staffing system existed for program administration. One staff was responsible for accounting for grant funds, managing subgrant operations, and closing projects awarded under Disasters 1068 and 1136, while a separate and distinct staff was responsible for such functions under Disasters 1247, 1372, and 1396. This separation in staff occurred because a former Director of OMB decided to hire new staff to manage disasters occurring during his tenure, and to let the staff which pre-dated his arrival manage the other older disasters. As illustrated below, this separation has not proven to be effective or efficient.

- Each unit had a financial manager and accountants who were responsible for the financial activities of their respective disaster declarations. Each unit also had a separate audit staff, with a combined total of 29 auditors who audited projects for their respective declarations. However, the allocation of these positions, and others in OMB, was not supported by a workload study.

Moreover, each unit had its own staff to address subgrantee inquiries. Consequently, those subgrantees that received funding under the two oldest disasters, and under the three most current disasters, had to interact with two different OMB units and several individuals to have their concerns addressed.

A similar situation existed with regard to the audit staff. One group of auditors was restricted to auditing projects awarded under the older disasters, while another group was restricted to auditing projects under the latest disasters. Thus, a subgrantee that receives funding under the older and newer disasters was subjected to multiple audits from different audit units.

By setting workload indicators, and consolidating similar functions into one unit, OMB may be able to reduce the number of positions required and related administrative costs, and improve efficiency in addressing subgrant activities.

- The operating practices of various units (i.e. accounting, monitoring, and auditing) were not always consistent or appropriate. For example, the financial unit handling Disaster 1068 and 1136 did not reconcile disbursements recorded in its subgrant control accounts to actual disbursements made by the Commonwealth Treasury Department. Consequently, accounting errors and omissions relating to disbursements were not detected.

On the other hand, the financial unit responsible for Disasters 1247, 1372 and 1396 did perform a reconciliation of disbursements but unlike the other unit, failed to record required matching contributions in its subgrantee fund control accounts. Such financial improprieties are detailed in Finding B1.

At the time of our audit, OMB had five opened disasters to manage until close out. These disasters were at various stages of completion. To determine the staffing and budgetary needs to manage and timely close these disasters, OMB should determine what work remains to be done, as well as the personnel and financial resources required to complete that work.

Recommendations

The OIG recommends that FEMA's Regional Director:

1. Require the OMB to determine the type and quantity of work that remains to be done under each opened disaster.
2. Require the OMB to develop a single staffing and budgetary plan to timely complete the existing workload and to revise the plan annually and when a new disaster occurs.
3. Review and use the OMB's plan as the basis for providing the OMB with administrative management funds.

Management's Response and OIG Analysis: At the time of Hurricane Georges, FEMA and OMB determined that a dual staffing system was necessary to ensure the continuity of work under previous disaster declarations. However, FEMA and OMB officials stated that OMB was currently operating under a single staffing plan, and should a new disaster occur, OMB would continue to work with a single staff.

Also, on March 18, 2003, FEMA requested that OMB submit a revised administrative plan, including staff and budget requirements needed to timely complete the existing workload. Based on these factors the OIG considers the finding closed.

B. FINANCIAL MANAGEMENT

OMB's accounting system, as required by federal regulation, was structured to separately account for FEMA's disaster assistance grant funds by disaster declaration, program, subgrant, and project. However, the accounting system did not contain accurate and complete data on disbursements to subgrantees and project costs, and failed to facilitate accurate financial reporting.

Additionally, the OIG noted that OMB had not implemented the cash management procedures approved by FEMA and, therefore, could not minimize the time lapse between the transfer of federal funds and actual usage. Moreover, with respect to administrative funds, OMB claimed and received \$371,958 to which it was not entitled.

1. Accounting System Weaknesses

Due to a lack of reconciliation, the accounting system did not accurately reflect disbursements made to subgrantees for two disaster declarations. Additionally, the system did not reflect, for three disaster declarations, matching contributions provided by non-profit and independent governmental organizations.

a. Inaccurate Data on Cash Disbursement -Disaster Declarations 1068 and 1136

There were three Commonwealth entities involved in accounting for funds awarded under Disaster Declarations 1068 and 1136; the Commonwealth's OMB, Civil Defense Agency, and Treasury Department. OMB maintained control over subgrantee funding and, based on expenditure data received from subgrantees, determined the amount of federal funds to be withdrawn from the U.S. Treasury Department and the amount to be disbursed to subgrantees. Upon receipt of drawdown and disbursement data from OMB, the Civil Defense Agency initiated the drawdown of federal funds and forwarded, to the Commonwealth's Treasury Department, the amounts to be disbursed to subgrantees. Upon receipt of federal funds, the Commonwealth Treasury Department transferred the identified disbursement amounts into the bank accounts of subgrantees.

The OIG found that OMB recorded cash disbursements in its subgrant fund control ledgers at the time of forwarding its drawdown and disbursement requests to the Civil Defense Agency. However, the actual disbursements were made by the Commonwealth Treasury Department after receiving the federal funds. Based on a limited test, we determined that the disbursement data recorded in the OMB's subgrant fund control ledger was not always accurate. As illustrated by the example below, some transactions were not recorded at all, while others were overstated or understated.

<u>Subgrantee</u>	<u>OMB Request Number Control</u>	<u>Disbursement Amount Requested</u>	<u>Disbursement Made</u>	<u>Disbursement Recorded in OMB Record</u>	<u>Difference</u>
Ryder Memorial Hospital	417	\$ 878	\$ 878	0	\$ 878
Health Service Facilities	517	9,632	9,632	0	9,632
Health Service Facilities	556	83,108	83,108	49,659	33,449
Patillas Primary Health Ctr	563	(4,650) ¹	(4,650) ¹	0	(4,650) ¹
Municipality of Trujillo Alto	580	10,468	10,468	9,490	978
Municipality of Naranjito	859-A	19,234	19,234	(19,234) ¹	38,468
Municipality of Culebra	Various	753,680	753,680	0	753,680
Department of Education	586	118,715	118,715	0	118,715

Additionally, the OIG found that the Civil Defense Agency mistakenly sent the same disbursement request to the Treasury Department twice, resulting in several subgrantees receiving duplicate payments totaling \$178,756, as follows:

<u>Subgrantee</u>	<u>OMB Request Number Control</u>	<u>Disbursement Amount Requested</u>	<u>Disbursement Made</u>	<u>Overpayment</u>
Municipality of Corozal	679-A	\$52,012	\$101,913	\$ 52,012
Municipality of Salinas	806-A	11,559	23,118	11,559
Municipality of Toa Alta	644-A	64,662	129,324	64,662
	645-A	50,523	101,046	<u>50,523</u>
Total				<u>\$178,756</u>

OMB could have detected these omissions and inaccuracies, as well as others that may exist in the system, if it had reconciled disbursements in its subgrantee fund control account with the Treasury Department records on disbursements. However, the OMB's accounting unit responsible for these disasters did not perform this function.

b. Incomplete Data on Project Cost-Disaster Declaration 1247, 1372 and 1396

Only OMB and the Department of Treasury were involved in the fund accounting process for these three disaster declarations. The drawdown function performed by the Civil Defense Agency under earlier disaster declarations was performed by OMB for these more current disasters. For these disasters, the responsible accounting unit performed periodic reconciliations of OMB and Treasury Department records. However, the accounting unit did not record, in the subgrantee fund control accounts, local matching contributions provided by non-profit organizations and independent Commonwealth agencies. The control accounts only reflected the matching contributions of Commonwealth Departments and municipalities. The omitted data was available at OMB because the subgrantees reported total program costs. However, OMB's accounting personnel only recorded the federal share of such costs.

¹ The amounts in bracket connote deobligations.

Recommendations

The OIG recommends that FEMA's Regional Director require that OMB establish procedures for and take action to:

1. Reconcile disbursements in its subgrantee fund control accounts for disasters 1067 and 1136 with disbursement records of the Commonwealth Department of Treasury, and make the necessary adjustments.
2. Record in its subgrant control accounts, for disasters 1247, 1372 and 1396, the amounts of matching contributions provided by non-profit organizations and independent Commonwealth agencies.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the findings and indicated that the OMB had assigned an employee to develop the procedures and take action to ensure the accuracy and completeness of the OMB accounts. Therefore, these findings cannot be closed until all actions have been completed.

2. Financial Reporting

OMB has not provided FEMA with timely Financial Status and Federal Cash Transaction Reports. Additionally, the Financial Status Reports did not always contain accurate information on program outlays.

a. Timeliness of Reporting

Federal regulation (44 CFR 13.41), and the various disaster agreements between the Commonwealth and FEMA, require OMB to submit a Financial Status Report to FEMA within 30 days after the end of each calendar quarter. FEMA uses this report to monitor program outlays. OMB's accounting unit in charge of Disasters 1068 and 1136 submitted Financial Status Reports on time. However, the unit in charge of Disasters 1247, 1372 and 1396 usually submitted its reports two to three months late.

Federal regulation also requires OMB to submit a Financial Cash Transaction Report no later than 15 working days following the end of each quarter. This report is used by FEMA to monitor drawdowns of federal funds and related disbursements to subgrantees. The reports for the period March 2001 to March 2002 were submitted 10 to 46 days after the due dates.

b. Accuracy of Reporting

According to Federal regulation (44 CFR 13.41), the Financial Status Report must include total program outlays, with separate identification of the federal share and local matching contributions. However, the OMB's Financial Status Reports for all five opened disasters did not contain complete and accurate information on program outlays. The OIG found that some disbursements for Disaster 1068 and 1136 were not recorded or were incorrectly recorded in the OMB's subgrantee fund control accounts, which served as the source for financial status reporting. Accordingly, the financial data extracted from these records and reported to FEMA was inaccurate.

Also, for Disasters 1247, 1372, and 1396 the OMB failed to include, as part of total outlays, matching contributions provided by non-profit organizations and independent Commonwealth agencies.

These accounting inaccuracies and omissions are discussed in Finding B.1.

Recommendations

The OIG recommends that FEMA's Regional Director:

1. Reemphasize to OMB, the financial reporting requirements and instruct OMB to submit Financial Status and Federal Transaction Reports on a timely basis.
2. Instruct OMB to include total program outlays (federal and local matching shares) in future Financial Status Reports, and ensure that, as a result of periodic reconciliation and other controls, such reports reflect accurate financial data.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the findings and indicated that reports are now submitted on a timely basis and that future reports will include total program outlays. These actions are adequate to close the findings.

3. Cash Management

OMB's approved administrative plan provided several scenarios that would be used to manage cash and to minimize the time elapsing between the transfer of federal funds and actual usage. For large projects, the plan provided that subgrantees would generally receive federal funds after they have completed an approved project and have submitted documentation of project expenditures, along with a certification of costs incurred. However, the plan allowed for federal funds to be advanced to cover expenditures up to 30 days in those cases requested by subgrantees and supported by evidence of costs for that period. For small projects, the plan provided for full payment after approval of the individual small projects.

OMB cash management procedures, as approved, were consistent with Federal regulation (44 CFR 13.20). However, as illustrated below, OMB did not follow its cash management procedures and proper controls were not implemented to minimize the time elapsing between the transfer of federal funds and actual usage.

- In practice, OMB advanced 50 percent of approved project amounts, totaling \$3,029,737, to 15 subgrantees who requested advances under Disaster 1247.² No consideration was given to the "30 day needs rule" reflected in the approved plan and subgrantees were not required to provide documentation to support their immediate cash needs. As a result of this practice, federal funds advanced to subgrantees remained idle for extended periods of time and may have been placed in interest bearing accounts, drawing interest which must be remitted to the federal government [44 CFR 13.21 (h)(2)(i)].

For example, the Municipality of Guayama received an advance of \$420,707 in August 2001 under Project Number 12440, Disaster 1247. However, as of March 2002, none of the funds had been spent.

- For Disasters 1068 and 1136, OMB did require, as provided for in the approved administrative plan, subgrantees to submit expenditure documents to support cost claimed, along with a certification of costs incurred. However, for Disasters 1247, 1372 and 1396, subgrantees submitted only a certification of costs incurred.

The policy of having subgrantees submit supporting documentation of cost incurred is not a federal requirement. The OIG believes that a certification of costs incurred would suffice. Therefore, OMB should consider changing its policy to reflect actual practices.

² At the time of our review, no advances had been requested by subgrantees under the two most recent disasters (Numbers 1372 and 1396).

Recommendations

The OIG recommends that FEMA's Regional Director instruct OMB to:

1. Implement its approved policy for advancing funds to subgrantees by limiting advances to cover immediate cash needs and by requiring documentary evidence of impending costs.
2. Consider amending its approved cash management policy by eliminating the requirement for subgrantees to submit supporting documentation of costs incurred and require only a certification.
3. Require the 15 subgrantees that received cash advances to return funds that are in excess of their immediate needs.
4. Determine the amount of interest earned on cash advances and require subgrantees to remit to FEMA interest earned.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the findings and indicated that OMB was developing new cash management procedures. Their response also indicated that letters would be sent to subgrantees requesting the return of funds that are in excess of cash needs and interest income. Therefore, the findings cannot be closed until these actions are completed.

4. Claims and Receipts of State Management Funds and Administrative Allowance

During the period covered by the OIG audit, FEMA provided OMB with \$8.6 million to cover expenses for administering the PA program. These funds were derived from two sources. Pursuant to the Stafford Act, OMB received \$2.7 millions of statutory allowances to cover the extraordinary cost directly associated with administering the program. This allowance is based on a statutorily mandated sliding scale percentage (ranging from one-half percent to three percent) that is applied to the total amount of federal disaster assistance funds awarded under the program. OMB also received \$5.9 millions under various "State Management Grants" to cover ordinary or regular cost directly associated with the program.

The OIG determined that OMB received \$371,958 for which it was not entitled (\$326,517 under state management grants and \$45,441 of statutory allowances).

a. Management Costs

OMB's claim under the Disaster Declaration 1247 state management grants contained questioned cost of \$326,517 (FEMA share \$293,865), resulting from excessive charges for fringe benefits, unrelated program costs, and a mathematical error.

(1) Excessive Charges for Fringe Benefits

OMB's fringe benefit claim of \$668,068 for the period October 1998 to December 2000 was overstated by \$315,679. Fringe benefits for this period were computed based on rates ranging from 37.282 to 41.010 percent applied to the total labor cost of \$1,719,942. These rates included annual, sick, and holiday leave earned by OMB grant employees. However, OMB also charged the full salaries, inclusive of fringe benefits, for these employees when they used leave. Therefore, the cost of leave was claimed twice.

Since the employees' full salary costs were charged to the FEMA grant, even when they were on leave, OMB should have used fringe benefit rates that were exclusive of leave. By applying such rates to labor costs, OMB claim for fringe benefit should have been \$352,389, rather than \$668,068. Thus, the OIG questions the \$315,679 excess claim, computed as follows:

<u>Grant Number</u>	<u>Labor Cost Claimed</u>	<u>Rate Applied</u>	<u>Cost Claimed</u>	<u>Proper Rate</u>	<u>Eligible Cost</u>	<u>Excessive Claim</u>
11192	\$ 212,179	38.304	\$ 81,273	20.320	\$ 43,115	\$ 38,158
11191	494,749	37.282	184,451	20.650	102,173	82,278
15966	295,311	39.190	115,735	20.283	59,897	55,838
15969	269,549	38.150	102,825	20.465	55,163	47,662
16141	<u>448,154</u>	41.010	<u>183,784</u>	20.538	<u>92,041</u>	<u>91,743</u>
Total	<u>\$1,719,942</u>		<u>\$668,068</u>		<u>\$352,389</u>	<u>\$315,679</u>

(2) Unrelated Project Costs

OMB's claim under State Management Grant 16141 included \$4,286 of labor costs for two auditors who performed an operational audit of the Commonwealth Department of Education. These activities were not related to and did not benefit the FEMA program. Thus, the OIG questions the \$4,286 claimed.

(3) Mathematical Error

FEMA approved \$378,926 under State Management Grant 15969 for labor cost and related fringe benefits. However, the schedule of cost claimed by OMB totaled \$372,374, or \$6,552 less than the amount approved. For this reason, the OIG questions the \$6,552 excess charge.

b. Statutory Administrative Allowance

As of March 2002, OMB received \$273,244 of statutory allowances under Disaster Declaration Numbers 1136, and \$2,294,055 under 1247. The Stafford Act provides for such allowances to cover extraordinary costs under emergency work and restoration projects. However, we determined that \$45,441 was awarded based on state management grants awarded to OMB (\$25,275 under Disaster 1136 and \$20,166 under Disaster 1247). Because these grants were for administrative operations, an allowance for general administration is not permissible.

Recommendations

The OIG recommends that FEMA's Regional Director:

1. Disallow \$326,517 of improper charges under state management grants, and
2. Deobligate the \$45,441 of statutory administrative allowance provided the OMB under state management grants.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the findings and indicated that FEMA had already recouped the \$326,517 of improper management grants. However, FEMA officials indicated that they would de-obligate the \$45,441 statutory administrative allowance when FEMA Headquarters provides instructions on the appropriate way to proceed.

The OIG considers the finding related to the \$326,517 of questioned costs closed. However, the finding related to the administrative allowance cannot be closed until FEMA de-obligate the \$45,441 in question.

C. PROGRAM MANAGEMENT

OMB had not provided timely advice and assistance to subgrantees on program matters. Additionally, OMB did not have an effective process for monitoring and auditing subgrantee operations and reporting on the status of project activities. As a result, sufficient controls were not in place to assure that subgrantees were administering public assistance projects and using grant funds in accordance with federal regulations and FEMA guidelines.

1. Processing Requests from Subgrantees

During the implementation of PA program activities, it may become necessary to make changes under approved projects. To accommodate such changes, subgrantees have been instructed, in applicant briefing documents they received immediately following a disaster, to request approval from OMB for time extension to complete project work, and changes in the approved scope of work. Additionally, Federal regulation [44 CFR, 206.207 (b) (1) (iii) (F)] requires OMB to develop procedures to process subgrantee requests and include the procedures in its annual administrative plans.

The administrative plans that FEMA approved for OMB acknowledged the need for project changes and noted that any request for change would be addressed. OMB plans, however, did not contain procedures to process subgrantees' request for project changes. Additionally, the staff assigned responsibility for responding to requests did not always possess the requisite skills to provide a proper response. Consequently, subgrantee request for project changes were not always addressed expeditiously or appropriately.

a. Time Extensions

OMB did not always properly review subgrantees' time extension request and did not process such request in an expeditious manner.

Federal Regulation (44 CFR 206.204) requires OMB to ensure that approved work is completed within time frames established by FEMA. Emergency work must be completed 6 months after the disaster declaration and permanent work 18 months after the declaration. OMB may grant a time extension if the reason for the delay is based on extenuating circumstances, or unusual project requirements beyond the applicant's control, so long as the additional time requested does not exceed six months for emergency work and 30 months for permanent work. All extension requests beyond these periods must be submitted to FEMA.

With respect to Disaster Declaration Number 1247, OMB received 2,179 requests from subgrantees for additional time to complete project work. OMB responded to 1202 of these requests by approving time extensions. The OIG found that 118 out of 201 extensions reviewed were supported by circumstances explaining the reasons

for the extension, while the remaining 83 were not. Consequently, OMB did not know if a valid reason existed for delays in implementing these 83 projects or whether the subgrantee had a plan to get these projects on track.

Additionally, OMB had 864 project extension requests that were not acted upon. These requests were received by OMB during the period March 2001 to March 2002. Many of the subgrantees wrote to OMB two or three times inquiring about the status of their requests. As of June 30, 2002, however, OMB had not responded to their inquiries.

The OIG reviewed the status of 116 of these projects as of October 2002 and found that the subgrantees had discontinued implementation under 103 projects, pending a decision from OMB. The subgrantees who had the remaining 13 projects continued project implementation and spent funds, with the uncertainty of reimbursement, beyond the established completion dates.

The OMB Public Assistance Officer was responsible for processing project extensions. However, he assigned the Resources Coordinator the responsibility for reviewing time extension requests and recommending to him approval or disapproval. The Resources Coordinator's main job involved staffing and administrative issues. The Resources Coordinator informed the OIG that he did not have the time or sufficient knowledge of subgrantee operations to properly perform the time extension review responsibility assigned to him.

b. Request for Changes in Scope of Work and Related Funding

OMB has not timely processed subgrantee requests for changing the scope of work and funding for architecture and engineering studies. Federal Regulation (44 CFR 206.206) requires OMB to review these requests and forward recommendations for action to FEMA within 60 days after receipt.

In reviewing request for Disaster 1247, the OIG found that 22 out of the 82 requests forwarded to FEMA during March 2001 to March 2002, were a month to 24 months late. Additionally, OMB had 40 requests on hand that were not forwarded to FEMA and 16 of these requests were at OMB for 7 to 24 months.

OMB's state public assistance coordinators (SPAC) were responsible for addressing subgrantee requests for changes in scope of work and related funding. Based on interviews, the OIG determined that most of the delinquent responses were the responsibility of 3 newly assigned SPACs who had previously served as subgrant auditors. These employees informed us that they were incapable of addressing the requests on hand because of technical engineering questions involved. They requested and were waiting for assistance from the SPAC who has engineering training.

Recommendations

The OIG recommends that FEMA's Regional Director require OMB to:

1. Develop procedures to process subgrantee requests for project changes and ensure that such procedures are consistent with federal regulation and FEMA guidelines.
2. Assign sufficient and knowledgeable staff the responsibility for reviewing and processing requests for project changes.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the findings and indicated that a contractor had been hired to develop procedures for handling request for project changes. This finding cannot be closed, however, until such procedures are developed.

Additionally, OMB had assigned additional staff to process requests for changes and FEMA indicated that it would provide technical assistance to ensure that such functions are performed appropriately. The OIG consider this finding closed.

2. Monitoring Subgrantee Operations

Federal regulation (44 CFR 13.40) requires OMB, as the grantee, to monitor the day-to-day operations of its subgrantee to ensure compliance with federal program requirements. Federal regulation also requires OMB to develop procedures for monitoring subgrant operations and to include such procedures in its annual administrative plan. The OIG determined, however, that OMB had not developed monitoring procedures and had not otherwise provided effective oversight of subgrantee operations.

Monitoring is a critical function in the management of federal grant programs and it should be accomplished through two means. First, subgrantees should be required to submit program and financial reports to OMB on the status of program activities. OMB should review these reports and, where appropriate, follow up on obvious or potential problem areas. OMB should also have a process for performing periodic on-site review of subgrantee program and financial operations during the implementation of various projects.

In practice, OMB did not perform periodic reviews of subgrantee operations during the implementation of FEMA projects. Consequently, OMB could not detect and correct problems in program implementation based on direct observation.

OMB did have a requirement for subgrantees to submit quarterly reports on the status of each FEMA project. The reports describe the amount approved by FEMA, expected project completion dates, the percentage of work completed, amount spent, and the amount of funds received from OMB. OMB, however, has neither enforced this reporting requirement nor taken action to review and follow up on potential problems contained in reports received.

For example, the OIG randomly selected 34 subgrantees to determine compliance with the status reporting requirements and found that all 34 had not submitted reports for the period of September 2001 to March 2002. An OMB public assistance officer stated that reports were not received because OMB had failed to provide the subgrantees with the prescribed reporting form.

The OIG found some status reports that had been submitted for periods prior to September 2001, but no evidence of OMB review and follow up on indicated problems. For instance, the Municipality of Río Grande reported in its July 2001 report that project work was completed with funds received from a source other than FEMA. Another subgrantee (the Municipality of Juncos) reported in its July 2001 report that certain projects were covered by insurance. However, in these cases, OMB did not follow up with the subgrantees to determine if the FEMA funds awarded for these activities were still needed.

Recommendations

The OIG recommends that FEMA's Regional Director require OMB to:

1. Develop procedures for monitoring the day-to-day operations of its subgrantees and include such procedures in its annual administrative plans. The procedures should provide for periodic on-site visits to evaluate subgrantee operations and periodic status reports on the financial and program activities of each project.
2. Enforce subgrantee financial and program status reporting requirements and follow up on indicated problems contained in such reports, including the examples cited relating to the Municipalities of Río Grande and Juncos.

Management's Response and OIG Analysis: FEMA and OMB officials generally concurred with the finding. Their response indicated that action would be taken to enforce subgrantee financial and program reporting requirements. Therefore, the OIG considers this issue closed. However, the response did not appropriately address the requirement for developing monitoring procedures. This finding cannot be closed until such procedures are developed.

3. Quarterly Performance Reports to FEMA

OMB had not submitted timely and complete performance reports to FEMA. Pursuant to Federal regulation (44 CFR 13.40), FEMA requires OMB to submit quarterly performance reports identifying, for each project, whether project implementation is on schedule and the reason for any slippage, an explanation of cost overruns if any exists, and other information deemed pertinent. FEMA needs this report to stay abreast of project activities and to address, where necessary, problems encountered during project implementation.

OMB, however, had not submitted any performance reports for the period April 2001 to March 2002. Additionally, the last performance report for the period ending March 31, 2001, failed to indicate, for many projects, whether project implementation was on schedule or the status of project work. These reporting deficiencies existed because OMB had not enforced subgrantee project reporting requirements (Finding C.2) and, therefore, did not have the required information to report to FEMA.

Recommendation

The OIG recommends that FEMA's Regional Director reiterate, to OMB, the requirement for quarterly performance reporting and, where appropriate, follow up to ensure compliance.

Management's Response and OIG Analysis: FEMA and OMB officials concurred with the finding and indicated that OMB was currently submitting timely and complete quarterly performance report. Therefore, the OIG considers the finding closed.

4. Auditing Subgrantee Operations

OMB had a staff of 29 auditors responsible for auditing FEMA sponsored programs and projects. Twenty-one of the auditors were being paid with funds provided under state management grants received from FEMA. However, the effectiveness and efficiency of OMB's audit process was adversely affected by problems in audit scheduling, planning, and reporting.

a. Audit Scheduling Process

OMB's subgrantee audit scheduling process did not provide for the efficient use of staff resources. OMB used two different scheduling processes during the past five years, both of which provided for audit of all large projects. During January 1999 to March 2002, OMB scheduled and performed audits of emergency services and debris removal projects first, and then, at a later date, audits of other activities. Since March 2002, however, OMB scheduled projects for audit as they were completed, irrespective of the type of activity.

Both the past and current audit scheduling processes provided for multiple audits of a subgrantee under a single disaster declaration. For example, as of March 2002, OMB had audited Disaster 1247 activities of the P.R. National Guard on six separate occasions. Additionally, the National Guard will have additional audits under Disaster 1247 because 13 large projects have not been audited.

Under the current scheduling process and with existing staff, we estimate that it will take OMB over seven years to audit the 888 large projects that have not been audited under Disaster 1247. OMB needs to change its audit scheduling process so that audit resources are used in a more efficient manner. Consideration should be given to developing an audit scheduling process that provides for auditing those subgrantees that historically have mismanaged grant funds, have experienced problems in administering projects as evidenced by OMB's monitoring efforts or other sources, have received the largest dollar awards, or have been referred for audit by public officials.

b. Audit Planning

OMB had not developed an audit methodology to assist auditors in meeting the stated objectives of its subgrant audits. Consequently, OMB has not received the most meaningful benefits and results from such audits.

According to Generally Accepted Government Auditing Standards (GAGAS), all audits begin with an objective. The objective determines the type of audit to be conducted and the audit standards to be followed. The type of audits are classified as financial audits or performance audits. In planning for such audits, auditors should develop a methodology for gathering data and identifying how such data will be analyzed to achieve the objectives.

OMB's subgrant audit objectives were stated in a generic audit assignment letter that was given to the auditors at the beginning of each assignment. The objectives were to determine whether the subgrantees used disaster funds in accordance with FEMA regulations in 44 CFR and complied with other administrative and program requirements.

OMB had an audit program that auditors used when performing audits. The program, however, did not contain the audit objectives or a methodology to achieve the stated objectives in the assignment letter. While the audit guide required the auditor to record subgrant financial data on pro-forma working papers, it did not require the auditor to analyze such data with an objective in mind.

During the period of January 1999 to March 2002, OMB issued 48 audits. The most prevalent audit finding involved "ineligible costs", however, the OIG noted no reasons were given for concluding that the costs were ineligible.

By developing clear audit objectives and an audit methodology, the quality of OMB's audit efforts should improve.

c. Audit Reporting

OMB's audit reporting format included an introductory paragraph which identified the projects audited and applicable federal regulations and FEMA guidelines. The report also included a schedule of FEMA funds awarded, allowable costs as determined by the audit, funds advanced, and the balance due or the amount of funds that should be recouped from the subgrantee. Contrary to GAGAS, however, the reports:

- did not contain statements on the scope or methodology of the audit;
- stated that the audit was made pursuant to the U.S. Office of Management and Budget (OMB) Circular A-133 (Single Audit Act). However, the audits were limited to FEMA activity and was not an organization-wide audit as required by Circular A-133;
- failed to indicate the audit standards that were followed;
- failed to provide a detailed and logical reason for questioning and disallowing costs; and
- failed to indicate whether the audit results were discussed with subgrantee officials or include their comments.

Recommendations

The OIG recommends that FEMA's Regional Director instruct OMB to:

1. Establish an audit scheduling process that considers auditing those subgrantees that historically have mismanaged grant funds, have experienced problems in administering projects as evidenced by OMB's monitoring efforts or other sources, have received the largest dollar awards, or have been referred for audit by public officials.
2. Develop an audit program that identifies the objectives of its subgrant audits and procedures to accomplish those objectives.
3. Instruct its audit staff to become familiar with and adhere to GAGAS in the performance of subgrant audits and audit reporting.

Management's Response and OIG Analysis: FEMA officials generally concurred with the findings but OMB only concurred in part. Nonetheless, OMB stated that the current audit scheduling process would be changed to focus on those subgrantees that have historically mismanaged funds and receives the largest dollar awards. Additionally, both FEMA and OMB indicated that the audit function may

be reduced with greater emphasis placed on monitoring and limited financial reviews. Further, with respect to audit reporting, OMB stated that it has taken action to ensure that future audit reports comply with GAGAS. Based on the above factors, the OIG considers the finding related to subgrant audits closed.

V. GENERAL COMMENTS

A. SUBGRANT CLOSEOUT

Closout of the grants awarded to the OMB under various disaster declarations occurs when FEMA determines that all applicable administrative actions and all required grant work have been completed. Before grant closeout can occur, however, the OMB must ensure such activities have been accomplished for each subgrants awarded under the disaster declarations.

The status of closeout for the five opened disaster declarations, as of June 25, 2002, was as follows:

a. Disaster Declaration 1068

There were 29 subgrantees under this declaration and only one had not been closed out (the Municipality of Culebra). Unresolved issues existed under one project at the time of our audit. However, at the exit conference, FEMA officials stated that the Disaster was closed on February 3, 2003.

b. Disaster Declaration 1136

Of the 132 subgrants made under this declaration, 14 remained open. Four of the subgrants were in process for closeout; two subgrantees had a project that was still being implemented; one subgrantee was waiting for a final determination from FEMA involving three projects; two subgrantees were being audited; and the remaining five subgrantees were preparing their final claim.

c. Disaster Declaration 1247

Awards were made to 288 subgrantees under this declaration, none of which have been closed. OMB records indicated that project worked had been completed under 84 of these subgrants, but final audit, inspection, and payments had not been made.

d. Disaster Declaration 1372 and 1396

Under these two declarations, awards were made to 26 and 20 subgrantees, respectively. Both disasters were declared during calendar year 2001 and none of the subgrants have been closed.

The OIG did not perform an analysis to determine whether OMB performed all the requisite steps to properly closeout subgrants under Disaster Declarations 1068 and 1136. Accordingly, we offer no observations concerning closeout of those activities. However, the implementation of our recommendations in Finding A relating to a work load study, and Finding C relating to processing subgrantees request for project

changes and audit scheduling, should result in a reduction of the time needed to closeout the remaining subgrants.

B. AUDITORS' INDEPENDENCE

A question of independence arose at the conclusion of our audit when the Field Office Director learned that one staff member assigned to the audit had a pending suit against OMB. This staff auditor, an employee of the OMB GAR office during October 23, 1996 to December 31, 1997, was a member of a class action suit, alleging that they were employees of the OMB and not independent contractors. The OMB employees were seeking benefits (leave, retirement, etc), denied as independent contractors that they would have been entitled to as employees.

To ensure impartiality and objectivity, the OIG findings were independently verified by an auditor not involved with audit field works and were fully discussed with FEMA and OMB management and with the resultant report acknowledging their views and comments.

The OIG extends thanks and appreciation to both OMB and FEMA program staff for their assistance and cooperation extended during the audit process.

ATTACHMENTS

ATTACHMENT A

Schedule of Awards and Expenditures
Puerto Rico Office of Management and Budget
For the Period Ending March 31, 2002

<u>Disaster Declaration</u>	<u>Award Amount</u>	<u>Expenditures</u>
<u>1396</u>		
PA Project	\$5,625,597	\$2,467,027
Statutory Allowance	61,178	-0-
State Management Cost	<u>-0-</u>	<u>-0-</u>
Subtotal	\$5,686,775	\$2,467,027
<u>1372</u>		
PA Project	\$6,660,160	\$3,972,820
Statutory Allowance	72,429	-0-
State Management Cost	<u>-0-</u>	<u>-0-</u>
Subtotal	\$6,732,589	\$3,972,820
<u>1247</u>		
PA Project	\$484,445,348	\$393,279,111
Statutory Allowance	2,294,055	1,696,734
State Management Cost	<u>2,466,742</u>	<u>2,421,819</u>
Subtotal	\$489,206,145	\$397,397,664
<u>1136</u>		
PA Project	\$48,189,900	\$38,588,055
Statutory Allowance	273,244	174,208
State Management Cost	<u>2,967,931</u>	<u>2,787,157</u>
Subtotal	\$51,431,075	\$41,549,420
<u>1068</u>		
PA Project	\$3,255,239	\$2,970,832
Statutory Allowance	39,639	39,639
State Management Cost	<u>428,273</u>	<u>428,273</u>
Subtotal	\$3,723,151	\$3,438,744
Grand Total	<u>\$556,779,735</u>	<u>\$448,825,675</u>



Federal Emergency Management Agency
P.O. Box 70105
San Juan, PR 00936-8105

May 12, 2003

MEMORANDUM TO: Gary Barard
 Eastern District Audit Manager
 Office of the Inspector General

FROM:  José A. Bravo
 Disaster Recovery Manager

SUBJECT: Audit of Puerto Rico Office of Management and Budget
 Administration of FEMA's Public Assistance Program

This memorandum is in reference to the Audit Report conducted by your office of the Puerto Rico Office of Management and Budget (OMB) and supersedes the Federal Emergency Management Agency's (FEMA) previous memorandum dated April 11, 2003. Further clarification was requested during a meeting held with your staff on April 28, 2003, which is explained in pages 2 and 5. In addition, refer to new attachments included.

We are transmitting to you the response of the Governor's Authorized Representative (GAR) to the audit. The response, received in our office on March 21, 2003, includes a summary of each situation or finding, agreement or disagreement of the finding, their comments on the finding, and the corrective action already implemented or to be implemented to correct the situation. Also, on April 8, 2003, additional information with supporting documentation was submitted to FEMA by the GAR in response to the report.

After having reviewed both the Audit Report and the GAR's response, FEMA agrees with the Office of the Inspector General (OIG) on most of the findings and recommendations included in the report. It must be noted that corrective actions have already been taken by the OMB to resolve some of the findings. Below are our comments to the findings in which FEMA is not in complete agreement:

FINDING A: OMB's STAFFING AND BUDGETARY PLAN ADMINISTARTING THE PUBLIC ASSISTANCE PROGRAM *(FEMA in partial agreement with OIG finding.)*

FEMA concurs with the GAR's observations and believes that the dual staffing system was necessary at that moment of time.

Prior to the FEMA-1247-DR-PR (Hurricane Georges) disaster declaration in September 1998, the OMB was working on the financial closeout of FEMA-931-DR-PR and FEMA-842-DR-PR,

plus the management, accounting, reporting and closeout functions of 1068-DR and 1136-DR. Foreseeing the magnitude of the workload related to the 1247-DR-PR disaster declaration, FEMA concurred with the GAR on the fact that, to insure the continuity of previous declarations' work, a dual staffing system would be necessary. It was decided that the existing

OMB staff would continue to manage and closeout subgrant operations under declarations 931-DR, 842-DR, 1068-DR, and 1136-DR and that a separate work team would be in charge of the new disaster declaration. At that moment, FEMA understood that this was the correct decision considering the magnitude of the workload we would be having as a consequence of Hurricane Georges and the importance of closing out old disasters, as required by FEMA Headquarters. This dual staffing system existed from September 1998 to March 2002 and kept all operations on going. At present, as mentioned in the GAR's audit response, the OMB is single staffed and working on the following disaster declarations: 1136-DR, 1247-DR, 1372-DR and 1396-DR. As of date, three applicants remains open in 1136-DR. Should a new disaster occur, the OMB will continue to work single-staffed, ensuring that the closeout process of old disasters continues.

Each year, the OMB must develop and submit to FEMA a Public Assistance Administrative Plan. Although the plans indicate that within a few days of each new disaster declaration, "the OMB will prepare and submit to FEMA a detailed and specific plan identifying the staffing and related financial resources needed to administer that disaster," **FEMA considered that the submittal of their Management Costs Requests fulfilled this requirement since the requests identified staffing, salaries and other related operating expenses.** Of the 32 Management Grant Requests submitted by the OMB for the last five disaster declarations, 69 percent were submitted to FEMA prior to or during the period covered by the requests, and were considered by FEMA to be estimates, and not actual costs. They were always thoroughly reviewed by FEMA staff prior to approval. The analysis of the OMB's required staffing was based on the magnitude of the disaster declaration, the workload, and the comparative FEMA staffing. For example, FEMA-1247-DR-PR was of such severity that at one moment FEMA had 19 Public Assistance Coordinators (PACS) and 81 Project Officers. OMB was required to provide state counterparts for each of these positions.

To keep updated on OMB's operations, FEMA management staff has always held weekly meetings with OMB management staff. At these meetings, such issues as **budget and staffing requirements**, project worksheets, cost overruns, appeals, audits, time extensions, pending workload, and other program matters were discussed.

Nevertheless, the audit report raises some valid concerns that we also identified in prior meetings and in correspondence with the GAR. For example, in a letter to the GAR dated June 22, 2001, we did not approve a staffing pattern proposal because there was no link between the management costs and their level of productivity with Large Project reviews. In another letter dated September 18, 2001, we expressed our concern that some of the GAR's auditors had not completed their cost reviews for San Juan in over one year. We also disapproved reimbursement for some of the staff, including supervisor positions. More importantly, we informed the GAR of our continued concern for their lack of productivity.

FEMA has taken the following steps to comply with the three recommendations under this finding:

1. FEMA is working closely with the OMB's staff and will require them to identify and determine the type and quantity of work that remains to be done under each open disaster.
2. On March 18, 2003, FEMA wrote the GAR requesting the submittal of this year's Revised Administrative Plan. The revised plan must identify staff and budget requirements necessary to complete the existing workload on a timely basis (copy of letter attached).
3. The GAR has indicated that they will be submitting to FEMA their next fiscal year Management Costs request during the month of May 2003. We will review the request based on their "Workload Plan".

FINDING B: FINANCIAL MANAGEMENT

1. Accounting System Weaknesses

(a) Inaccurate Data on Cash Disbursements (FEMA in Agreement with OIG finding.)

A duplicate payment of \$52,012 to the Municipality of Corozal was identified by the OIG. However, this error was found and corrected by the GAR's Office during the closeout audit of this project. No excess funds were ever paid for this project.

On March 6 and 17, 2003, the GAR wrote to the Municipalities of Toa Alta and Salinas, thus initiating the process to recoup excess funds paid.

(b) Incomplete Data on Project Cost (FEMA in Agreement with OIG finding. The GAR has corrected the situation.)

2. Financial Reporting

(a) Timeliness of Reporting (FEMA in Agreement with OIG finding. The GAR has corrected the situation.)

According to Region II in-house logs for FY 2002, OMB's Financial Status Reports were submitted on a timely basis. Normally the SF 269 is due from all jurisdictions 30 days after the end of the quarter. However, a Caribbean Division memo dated November 13, 2002 (copy enclosed), allows Puerto Rico 45 days instead. Also, the Region II Office is e-mailing a reminder to OMB to submit the report immediately after the end of each quarter period.

Presently, the OMB is including total program outlays (Federal and local matching shares) in their Financial Status Reports and has corrected previously submitted reports.

- (b) **Accuracy of Reporting** (FEMA in Agreement with OIG finding. The GAR has corrected the situation.)

3. **Cash Management** (FEMA in Agreement with OIG finding.)

The GAR has hired a person to prepare a Standard Operating Procedure (SOP), which will be reviewed by our office.

4. **Claims and Receipts of State Management Funds and Administrative Allowances**

a. **Management Costs**

(1) **Excessive Charges for Fringe Benefits** (FEMA in Agreement with OIG finding.)

We have prepared the following supplemental PWs to make the appropriate adjustments that were questioned in the finding: #16625, #16626, #16627, #16629, and #16628. However, the OMB has not claimed excess fringe benefits since August 2001, covering the period of January 2001 to June 2001.

(2) **Unrelated Project Costs** (FEMA in Agreement with OIG finding.)

Supplemental PW #16629 includes the recommended adjustment.

(3) **Mathematical Error** (FEMA in Agreement with OIG finding.)

Supplemental PW #16625 includes the recommended adjustments.

These PWs responded to findings (1), (2), and (3) above.

PW PREPARED	SUPPLEMENT Of PW	AMOUNT ADJUSTED
16625	15969	-\$ 54,214
16626	15966	-\$ 55,840
16627	11191	-\$ 82,277
16628	11192	-\$ 38,159
16629	16141	<u>-\$ 96,028</u>
	TOTAL	-\$326,518

b. **Statutory Administrative Allowance** (FEMA in Agreement with OIG finding. However, this is an uncontrollable ADAMS-generated error.)

Unfortunately, ADAMS, the computer software used in the Public Assistance Program Standard Project Number 750, automatically calculates and adds

Grantee Statutory Allowances to the cost of State Management Project Worksheets. We have no way of controlling this situation and statutory administrative allowances will continue to be obligated every time State Management Costs are approved and processed through ADAMS. We will consult with FEMA Headquarters for their feedback on the appropriate way to proceed. Presently, we are reconciling the Management Costs of FEMA-1136-DR-PR. Any overpayments found will be adjusted at closeout.

FINDING C: PROGRAM MANAGEMENT

1. Processing Requests from Subgrantees

(a) **Time Extensions** *(FEMA in Agreement with OIG finding. Situation corrected by the GAR.)*

(b) **Requests for Changes in Scope of Work** *(FEMA in Agreement with OIG finding.)*

FEMA will be providing technical assistance to the GAR's Office so that they can process all pending requests.

(c) **Cost Overruns** *(FEMA in partial disagreement with OIG finding.)*

With reference to the instances in which the OMB staff provided incorrect verbal instructions to subgrantees on processing cost overrun claims, the situation has been dealt with by the GAR and the affected subgrantees have been briefed on the correct way to submit the overruns.

In relation to the finding that the OMB audited eight subgrantees and disallowed \$9.7 million in excess of approved amounts simply because they were overruns, we concur with the GAR's response that the municipalities of Canovanas, Guanica, Gurabo, Loiza, and Mayaguez did not have cost overruns. As you can see in the attached tables, the excess costs found were questioned or ineligible "Category "A" costs being claimed by the subgrantees. This situation results from the fact that during FEMA-1247-DR-PR, various subgrantees claimed large quantities of debris that could not be measured nor quantified by FEMA. Consequently, FEMA had to established a policy that any debris that was not measured or verified by a FEMA representative¹ would not be considered eligible for FEMA funding. If the subgrantees were not in agreement with FEMA's determination, they had to submit an appeal as provided in 44 CFR § 206.206. The GAR reviewed these costs after FEMA had made a determination; consequently, any cost beyond FEMA's approved cost cannot be considered an overrun nor would be eligible for reimbursement.

¹ FEMA representative could be a FEMA, USACE or TAC employees.

The audit reports for the Municipalities of Peñuelas and Juana Diaz contain recommendations for cost overruns that have been transmitted to FEMA for appropriate review and action.

2. Monitoring Subgrantee Operations *(FEMA in Agreement with OIG finding.)*

Instead of requiring the GAR to develop additional procedures for monitoring subgrantees, FEMA should require the GAR to improve its analysis in the Quarterly Progress Reports. In addition, the GAR must make sure that the subgrantees submit the reports on time with accurate project information. Finally, the GAR must improve its tracking logs and monitoring process in order to quickly identify problems, delays, or adverse conditions that may affect the progress or completion of the projects.

3. Quarterly Performance Reports to FEMA *(FEMA in Agreement with OIG Finding. Situation Corrected by the GAR.)*

4. Auditing Subgrantees Operations

a. Audit Scheduling Operations *(FEMA in Agreement with OIG finding.)*

b. Audit Planning *(FEMA in Agreement with OIG finding.)*

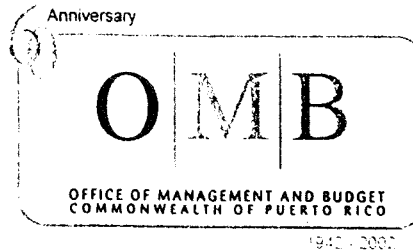
c. Audit Reporting *(FEMA in Agreement with OIG finding.)*

The GAR has submitted documentation to refute this finding. FEMA will defer to the OIG, the evaluation of the information submitted by the GAR. Two letters have been written to the GAR indicating that it is not necessary to audit all large projects since the process creates an enormous backlog. Instead, we believe that we can still continue to protect the federal funds using the mechanisms described in the letters. (See attached letters dated February 20 and March 18, 2003).

CONCLUSION:

The FEMA Regional Director will follow all the recommendations made by the OIG in its Audit Report of the Puerto Rico Office of Management and Budget (OMB) on all of the findings in which we are in agreement and will also follow-up on the GAR's proposed corrective actions.

If you have any questions regarding this matter, please call Mr. Alejandro R. De La Campa at (787) 296-3500.



Hon. Sila M. Calderón
Governor

Melba Acosta, Esq
Director
acostamelba@ogp.gobierno.pr

RECEIVED MAR 21 2003

March 20, 2003

Mr. José A. Bravo
Carribean Division Officer
Federal Emergency Management Agency
PO Box 70105
San Juan, PR 00936-8105

Dear Mr. Bravo:

Attached for your review and action is a copy of GAR comments to the "Audit of the Office of Management and Budget Administration of FEMA's Public Assistance Program". The audit is for the period September 1995 to March 2002.

Should you have any questions concerning our comments, please contact Mr. Luis G. Bravo, Alternate GAR at (787) 772-6995, extension 222.

Sincerely,

A handwritten signature in dark ink, appearing to read "Melba Acosta".

Melba Acosta
Government Authorized Representative

Attachment

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-A OMB's Staffing

- Summary of the Situation

A dual staffing system existed for the Public Assistance Program. One staff was responsible for accounting for grant funds, managing sub grantees and closing projects awarded under Disasters DR-PR #1068 and #1136 and another separate staff for such functions under Disasters DR-PR #1247, #1372, and #1396.

- Verification of the Findings

Two (2) distinctive staffs existed as indicated in the finding for the period ending in March 2002.

- Comment to the Finding

As of January 2, 2001 the management of active disasters was divided in two (2) working teams. The previous GAR, made this decision. As of Hurricane Georges, the accounting and payment structure of disasters #1068 (Marilyn) and #1136 (Hortense) was already established and it was decided not to assign to this work team the accounting of an additional disaster of Hurricane Georges' magnitude. We understand that this decision was the correct one at that time, considering that it was the second largest disaster in the whole nation.

- Corrective Action

At present the office GAR has a single staff to manage the active disasters of Georges (1247), May 2001 Rains (1372), and November 2001 Rains (1396). Regarding disaster Hortense (1136) at present there is only one applicant left, which is the Municipality of Maunabo with only one (1) project to complete. Disaster 1068 declared in September 1995 as result of Hurricane Marilyn is already closed. Therefore, at the moment, it is not necessary to make changes in the staff structure. When a new disaster occurs, OMB will maintain a single staff, as it did with the two most recent disasters, 1372 and 1396.

The OMB will send to FEMA a breakdown of the type and quantity of work that remains to be done under each open disaster.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-B-1(a) Accounting System Weaknesses

- Summary of the Situation

Based on the limited test, the OIG determined that the disbursement data record in the OMB's subgrant fund control ledger was not always accurate.

- Verification of the Finding

A. The transactions omitted are for disbursements not recorded in the OMB subgrantees fund during the period of July to November 1997. In relation to the disbursement to the Municipality of Naranjito on April 2001, we determined that this transaction was not omitted. This transaction was incorrectly recorded as a credit instead of as a debit. (Exhibit 1)

B. Duplicate payments to Toa Alta and Salinas Municipality occurred on June 1998 and December 1999. With respect to the duplicate payment to Corozal, we determined that it was not a duplicate payment. Funds were advanced in excess, and they were adjusted to the subgrantee during the closeout process.

- Finding's Comments

The GAR's subsidiary's disbursements when we took office were made by many employees and auditors. However, since February 2001 we assign one employee to be in charge of management of the subsidiary.

In addition, with respect to the duplicated payment to the Municipality of Corozal (disaster #1136), at the client's closeout the GAR made adjustment to the payment of \$52,012 on the final disbursement. This was done according to our audit report. Therefore there was no duplicated payment. (Exhibit 2)

- Corrective Action

A. We will proceed to account the omitted disbursement on subgrant fund control ledger. The new GAR management has appointed an employee to control the subgrantee fund accounts and reconcile disbursements with the Department of Treasury records.

B. We will take action to collect the \$126,744 from the two (2) municipalities that were over-paid (Salinas \$11,559 and Toa Alta \$115,185). The accounts of these two clients will be re-opened in order to determine at the closeout why the Auditor did not become aware of the duplicate disbursements.

**GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE
INSPECTOR GENERAL REPORT**

- Finding IV-B-1 (b)

Summary of the Situation

The accounting unit did not record in the sub grantee fund control accounts, local matching contributions provided by non-profit organizations and independent Commonwealth agencies. The control account only reflected the matching contributions of the Commonwealth department and municipalities.

- Verification of the Finding

We agree with this finding.

- Comments to the Finding

No comments

- Corrective Action

The OMB, at the beginning of each disaster, will record in the subgrantees fund control account the local matching contributions provided by non-profits organizations and independent Commonwealth agencies.

**GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE
INSPECTOR GENERAL REPORT**

- Finding IV-B-2 (a) Timeliness of Reporting

- Summary of the Situation

- The OMB has not provided FEMA with timely Financial Status and Federal Cash Reports.

- Verification of the Finding

- We determined that the reports were submitted late.

- Comments to the Findings

- No comments.

- Corrective Action

- As a result of the 2001 Single Audit prepared by KPMG, the OMB assigned an employee to follow-up and submit Financial Status and Federal Transaction Reports on a timely basis. In addition, the representative of FEMA, Ms. Flora Moy, always submits a remainder through electronic mail immediately after the end of each quarterly period. Therefore, the 269-a Financial Status Reports and the 272-a Federal Cash Transaction Reports for September and December of 2002 were submitted within the required period. (Exhibit 3 and 3a and 4)

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-B-2 (b) Accuracy of Reporting

- Summary of the Situation

- The Financial Status Reports, generally, did not contain accurate information on program outlays.

- Verification of the Finding

- We determined that certain Financial Status Reports, in general, did not contain accurate information on program outlays.

- Comments to the Findings

- The 269-A reports that have been pointed out will be amended in order to add the disbursements not accounted for disasters #1068 and #1136 and differences not included in the local matching reports for #1247, #1372 and #1396 for non-profit organizations and public corporations.

- Corrective Action

- Once we can determine the differences, the 269-A report that has been pointed out will be amended in order to add the disbursements not accounted for disasters #1068 and #1136 and the differences not included in the local matching reports for #1247, #1372 and #1396 for non-profit organizations and public corporations. Also, for future Financial Status Reports OMB will ensure that total program outlays (Federal and Local Matching) are included.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-B-3 Cash Management

- Summary of the Situation

- The OMB did not follow its cash management procedures and proper controls were not implemented to minimize the time elapsing between the transfer of the Federal Funds and actual usage.

- Verification of the Finding

- We determined that the OMB did not follow its cash management procedure and proper controls were not implemented to minimize the time elapsing between the transfer of the Federal Funds and actual usage.

- Comments to the Findings

- As we mentioned above at present we are working on the advanced funds procedure. Furthermore, we want to point out that due to the magnitude of the Hurricane Georges disaster, advancement of funds was necessary due to the many petitions of clients who lacked funds for the development of their projects and also to guarantee part of necessary funds to honor the contracts already made. The advancement of funds was made essentially by a simple client's certification by the Public Works Director or any other person having a similar position and the signature of the Mayor or the Agency's Director.

- In the Guayama case mentioned in the report as an example, there were legal problems with the bidding process that delayed significantly the project development. So, this is not a good example, because this is an exception, not the standard. (Exhibit 5)

- Corrective Action

- At present, the GAR office hired a person to design and prepare procedures for the management of advance funds. In essence, the procedure will be through the certification of the project's phases and the corresponding inspection by the GAR's engineers for every project's finished phase. In this way we will be sure that the advanced funds will be used for subgrantee immediate cash needs. The final procedure will assure that advances should be used by subgrantees in a short time. Our approving policy will be revised in order to limit advance for immediate needs and to reevaluate the submission supporting documents.

The GAR will prepare letters to subgrantees requesting the return of funds in excess of their immediate needs. Also, the GAR will determine the interest earned, if any, and will remit it to FEMA according to the applicable regulations.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-B-4 (a) Administrative Allowance

- Summary of the Situation

- The OMB claim under the Disaster Declaration #1247 state management grants contained questioned cost of \$326,517, resulting from excessive charges for fringe benefits (was overstated by \$315,679), unrelated program cost (\$4,286) and mathematical error (\$6,552 excess charge).

- Verification of the Finding

- We determined that OMB received \$326,517 under state management grants, to which it is not entitled.

- Comments to the Findings

- The actual administration found out about this situation when we prepared our first request of funds to FEMA. All requests from the current administration are properly done. (Exhibit 6) The excess funds received were during the period of October 1998 through December 2000.

- Corrective Action

- In coordination with FEMA, we will reduce future requests for state management grants by the amount of the improper charges.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-B-4 (b)

- Summary of the Situation

- The OMB received \$244,505 of statutory allowance under Disaster Declaration #1136 and \$2,237,680 under #1247. It determined that \$45,441 under award based on state management grants awarded to the OMB (25,275 under Disaster #1136 and \$20,166 under Disaster #1247). These grants were for administrative operations and an advance for general administration is not permissible.

- Verification of the Finding

- The statutory cost was credited directly from FEMA through the software program known as ADAM.

- Comments to the Findings

- We do not agree with this finding. This is a FEMA situation which is caused by the FEMA ADAM System.

- Corrective Action

- FEMA has to deobligate the \$45,441 of statutory administrative allowance

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-1(a) Time Extensions

- Summary of the Situation

- The OMB did not always properly review subgrantees' time extension request and did not process such request in an expeditious manner.

- Verification of the Finding

- We agree that many time extensions had not been expeditiously processed during the period covered by the audit.

- Comments to the Findings

- The time extensions situation has been corrected and we are processing all of them on time. FEMA and the OIG are aware of the corrective actions that have been implemented in this regard.

- Corrective Action

- In August 2002, one month prior losing jurisdiction over time extension processing, the GAR office appointed a group of 15 employees to work on all the pending time extensions. All the pending time extensions were processed. Afterwards we appointed one (1) employee to receive, work or refer for further analysis all the time extensions. As of today, March 21, 2003, there are only nine (9) clients for sixty-three (63) projects time extensions pending to be processed, which were all received in our offices on the last week. (Exhibit 7)

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-1(b) Request for Changes in Scope of Work and Related Funding

Summary of the Situation

The OMB has not timely processed subgrantee request for changing the scope of work and funding for architecture and engineering studies twenty two (22) out of the as requests forwarded to FEMA were twenty four (24) months late.

- Verification of the Finding

We agree with the fact that many subgrantees' requests' for changing the scope of work were waiting to be processed by the time of the audit period.

- Comments to the Findings

During the audit period, there were three new SPACs' working in the evaluation of the requests that were submitted with the information available. As a result of the preliminary analysis SPACs' are expected to request additional information from the clients, which is necessary to make a recommendation to FEMA. In addition, during the audit period two (2) disasters occurred (#1372 on May 2001 and #1396 on November 2001), changing priority efforts to the disasters. In addition, there were changes of the administration in some of the municipalities and the central government.

- Corrective Action

From March 2001 through March 2002, three (3) new State Public Assistant Coordinators started with this responsibilities. The GAR's management instructed the new SPACs' to get help from the other SPACs' and the more experienced Project Officers (PO) to speed up this process. As a result, work activities related to request changes of scope of work were referred to FEMA in a lesser amount of time. Also, the three new SPACs' gathered experience in the evaluation of the request from the applicants.

As we stated on Finding IV-B-3, the GAR hired a contractor to develop several procedures including request for project changes. In addition, the GAR is considering the possibility of assigning additional staff for this activity.

With respect to cost overruns, usually subgrantees inform cost in excess through the quarterly progress report.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-1(c) Cost Overruns

- Summary of the Situation

The OMB practice for addressing cost overruns did not fully comply with Federal requirements and resulted in subgrantees absorbing overrun cost in their totality, without the benefits of federal participation.

- Verification of the Finding

We have to indicate that, as a matter of policy of the past administration, cost overruns of the subgrantees were not considered for recommendation to be submitted to FEMA for their final approval. Under the new administration, only one cost overrun was omitted. This overrun was from the Juana Díaz Municipality. It was considered and submitted to FEMA in November 2002.

- Comments to the Findings

We do not agree with this finding. Also, we do not know on which Applicants' Briefing was it mentioned that the overruns were going to be included in the quarterly progress reports. Furthermore, we do not understand the conclusion of this finding, that the overruns are not considered simply because they are "overruns". To refute this finding we include several reports recommending "overruns" to FEMA. (Exhibit 8)

- Corrective Action

None. The situation has not occurred during the actual administration. Under the actual administration, cost overruns are evaluated during the audit and if they are valid, they are recommended to FEMA. In fact, out of the eight (8) subgrantees that the report refers to, we verified and found that only one (1) was incurred under the present administration, that of the Juana Díaz Municipality. Nevertheless, on November 20, 2002 this overrun was recommended to FEMA. In addition, as soon as possible we are going to reopen the remaining seven (7) subgrantee's accounts to evaluate the overruns for recommendation and submission to FEMA. (Exhibit 9)

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-2 Monitoring Subgrantee Operations

Summary of the finding

Federal Regulation (44 CFR, 13.40) requires the OMB, as the grantee, to monitor the day-to-day operations of its subgrantee to ensure compliance with Federal program requirements. Federal regulation also requires OMB to develop procedures for monitoring subgrant operations and to include such procedures in its annual administrative plan. We determined, however, that the OMB had not developed monitoring procedures and had not otherwise provided effective oversight of subgrantee operations.

Verification of the finding

As stated in the finding, 29 of the 34 subgrantees didn't submit the quarterly progress reports. In other cases, quarterly progress reports (known as P-4) are not required due to certifications of work finished or the retire of the applicant's request.

Comments to the findings

Due to the rains of May 2001 (Disaster 1372) and the rains of November 2001 (Disaster 1396), GAR office activities are focused on both disasters. However, follow-up by SPAC's through telephone calls and letters for previous quarterly reports notified the applicants of the requirement for the submission. Also, on the applicant's briefing and the kick off meeting, applicants are made aware of the importance of the timely submission of the reports.

Corrective Action

The GAR has appointed an employee to be in charge of the quarterly progress report and to follow-up on the SPAC's. Since then, report submission has improved. Joint efforts from the SPAC through letters, telephone calls and personal contacts have produced improvements. Nevertheless, we still have problems of submission with several applicants. The GAR issued instructions to all SPAC's to follow up closely the problems indicated by sugrantees in the quarterly reports.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-3 Quarterly Performance Reports to FEMA

Summary of the finding

The OMB had not submitted any performance reports for the period of April 2001 to March 2002. Additionally, the last performance report for the period ending March 31, 2001, failed to indicate, for many projects, whether project implementation was on schedule or the status or project work.

Verification of the finding

Due to rainfalls of May 2001 and November 2001, in addition of managing Georges, we stopped submitting the quarterly reports for the referred period.

Comments to the findings

No comments.

Corrective Action

We began to resubmit this report with the March 2002 quarterly report. (Exhibit 10)

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-4(a) Audit Scheduling Process

Summary of the finding

The OMB's subgrantee audit scheduling process did not provide for the efficient use of staff resources. The OMB used two different scheduling processes during the past five years, both of which provided for audit of all large projects. During December 1998 to March 2002, the OMB scheduled and performed in audits of emergency services and debris removal projects first, and then, at a later date, audits of other activities. Since March 2002, however, the OMB scheduled projects for audit as they were completed, irrespective of the type of activity.

Verification of the finding

The GAR's human resources have been used efficiently and with responsibility during the past years. The finding explains that the GAR sends its auditors to the field to take a look at the Emergency projects and later on they are sent again to carry out the Permanent Improvement Projects' audits, resulting in multiple audits.

The Emergency Projects (A and B categories) are related to debris pick up and preventive measures previous to the disaster. Due to the nature of these projects, they are completed within a six (6) month period after the disaster. The Permanent Improvements projects, due to their nature, took more time, approximately three (3) years. The OIG suggests that we waited at least three years to complete the Emergency projects as well as the Permanent Projects, in order to make only one (1) audit and preclude our clients from receiving a significant amount of money. In fact, the GAR completed 153 Emergency Projects audits that generated disbursements of \$168,482,040. These funds could be lost had we followed the OIG suggested audit schedule. (Exhibit 11)

Comments to the findings

We understand that the example used, the Puerto Rico National Guard, was incorrect and it was explained to Auditor Serrano many times by the auditor manager, René Rodríguez, and our auditor, Shirley Correa. The attendance reports of our auditor clearly shows that this audit was made in 104 working days, not 560 days as the OIG insists. The time invested by Ms. Correa is completely adequate given the fact that the Puerto Rico National Guard participates in all security related measures previous to the disaster and the FEMA approved projects were substantial. Our auditor worked alone, without any auxiliary auditor.

Furthermore, the audit report comes to the incorrect conclusion, without any basis, that the GAR will take seven (7) years to audit all Hurricane George's remaining large projects. At present, the GAR estimates that it will take approximately 30 months (2 ½ years) to audit all the remaining projects.

Corrective Action

The GAR will evaluate its current audit scheduling process to make sure that the process takes into consideration the factors that cause subgrantees to mismanage grant funds, focusing on those subgrantees that have historically mismanaged funds and/or have received the largest dollar award. Also we will, in coordination with FEMA, reevaluate the scope of our audits to limit our work to financial review or monitoring.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-4(b) Audit Planning

Summary of the finding

The OMB have not developed an audit methodology to assist auditors in meeting the stated objectives of its subgrant audits. Consequently, the OMB has not received the most meaningful benefits and results from such audits.

The OMB had an audit program that auditors used when performing audits. The program, however, did not contain the audit objectives or a methodology to achieve the stated objectives in the assignment letter. While the audit guide required the auditor to record subgrant financial data on pro-forma working papers, it did not require the auditor to analyze such data with an objective in mind.

Verification of the finding

We disagree with this finding.

Comments to the findings

We understand that the basis for this finding is incorrect. Our comments on this matter are as follows:

1. The GAR office and its personnel have clearly defined what are their duties and responsibilities as Grantee. Our auditors have full knowledge of our audit objectives and follow a well-defined methodology. We are not oriented to make findings of internal controls. Our audits are focused on determining eligibility of FEMA projects. The most common findings in our reports refer to non-related costs, duplicate benefits, non-documented costs, etc.
2. We understand there is no existing relationship between the number of findings reported by an Auditor and the knowledge that he or she may have of the audit objectives.

Our reports include findings that indicate the reasons to deobligate funds.

Corrective Action

We already reviewed our audit program and understand that clear audit objectives and methodology exist. The GAR will include in the main report, a summary sentence with the reasons for the deobligation of funds.

GAR RESPONSE TO THE AUDIT FINDINGS IN THE OFFICE OF THE INSPECTOR GENERAL REPORT

- Finding IV-C-4(c) Audit Reporting

Summary of the finding

The OMB's audit reporting format included an introductory paragraph, which identified the projects audited and applicable Federal regulations and FEMA guidelines. The report also included a schedule of FEMA fund awarded, allowable cost as determined by the audit, funds advanced, and the balance due or the amount of funds that should be recouped from the subgrantee. Contrary to GAGAS, however, the reports:

- Did not contain statements on the scope or methodology of the audit,
- Stated that the audit was made pursuant to the U.S. Office of Management and Budget (OMB) Circular A-133 (Single Audit Act.). However, the audits were limited to FEMA activity and was not an organization wide audit as required by Circular A-133,
- Failed to indicate the audit standards that were followed,
- Failed to provide a detailed and logical reason for questioning and disallowing cost, and
- Failed to indicate whether the audit results were discussed with subgrantee officials or include their comments.

Verification of the finding

We disagree partially with this finding. Our comments are set forth below:

The audit reports always,

- Contain the scope of the audit; (Exhibit 12)
- Have an attached document that reflects the audit results discussed with the subgrantee officials or include their comments. (Exhibit 13)

Comments to the findings

The findings identify several aspects of the audit process that have to be mentioned on the report, but it does not imply, nor is suggested on the report, that the GAR did not comply with any of these aspects.

Corrective Action

1. Methodology - A short sentence was added to the report making reference to the methodology used.
2. Circular Letter A-133 – Reference to this Circular Letter was removed from the report text.
3. Audit Standards – The auditors were instructed to include a statement in all the reports that the General Accepted Government Auditing Standards have been followed including those related to due professional care, quality control and independence.
4. Justifications to deobligate funds – are offered through the findings.